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Keeping honest people honest

by Gil Van Over

Last week at the NADA convention, regardless of who I spoke with, once they found out what gvo3 does for a living, the conversation invariably got around to a question that can best be described as "How do I keep honest people honest in these trying times?" The main areas of concern continue to be desperate consumers who will lie on a credit application and provide false documentation, or desperate employees who will help consumers lie on a credit application or provide bad information to the lenders, or desperate employees who will take advantage of poor internal controls and steal from the dealer. Here's a few tips.

Desperate Consumers

Consumers whose vehicles have either died or been taken back by the lienholder are desperate for transportation. This desperation can lead them to, as one F&I Manager described in an expose on her previous employer, "…fudge their income. That is, lie." You can catch many of the lies by asking for proof on income and comparing it to the amount listed on the credit application.

The greater risk, though, is the consumer who has manufactured proof of income to substantiate the lie. These can take the form of tax returns, social security award letters, fake paystubs or letters from employers.

You need to have an established policy on how to vet proof of income. You should also train employees on the policy and tips on how to uncover fraudulent proof of income.

Desperate Employees Lie to Lenders

I had an opportunity to participate in a panel discussion at a lender's conference the day before NADA started. My other panelists agreed that the overwhelming majority of dealers and managers that work at dealers are honest people. While there are a few bad apples, just as there are in any industry, when employees' incomes start falling because of falling sales, some managers can be tempted to "…fudge…lie" on credit applications.

You may want to establish a policy that the consumer completes the credit application and that is the information that is submitted to lenders. Follow that up with periodic reviews of the consumer completed credit application versus the information transmitted to lenders via a credit application aggregation system for consistency. If you have valid proof of income that supports a different income than what the consumer stated, submit that information to the lender in the notes section and let the lender make the changes to income.

Desperate Employees Lie to Employers

This topic is not necessarily tied to falling sales, because it has been a risk for a long, long time. Regardless, whether due to slowing economy or to an employee with an addiction of some sort (gambling, alcohol, drugs), some well run dealerships have been embezzled by trusted employees.

When some of these dealerships conduct an investigation to try and determine how the embezzlement happened, it frequently points to not having a strong internal controls process in place. In other words, there were holes or weaknesses or in the dealership's processes for handling cash or receivables or checks or mail.

The best step for a dealership to take is to call its accountant and ask for a review of its internal controls. Then implement the changes the accountant recommends.

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